



# WEEKLY ECONOMIC DIGEST

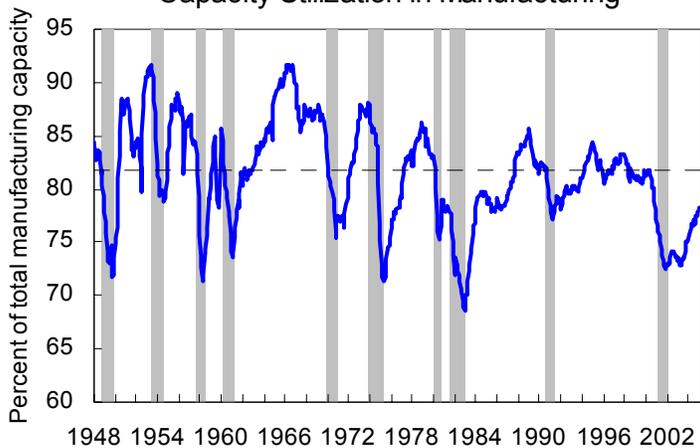


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

May 24, 2005

## Factories Still Operating Below Capacity; Underlying Inflation Cools

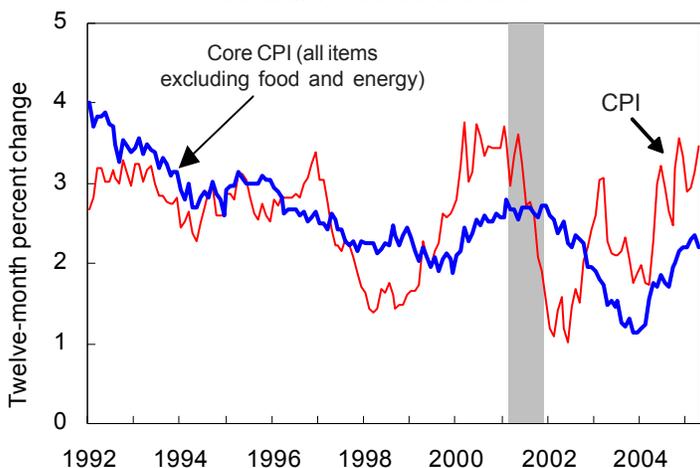
Capacity Utilization in Manufacturing



Source: Board of Governors, Federal Reserve System and National Bureau of Economic Research.

Note: Dashed line indicates the average utilization rate between the business cycle peaks in November 1948 and March 2001.

Consumer Price Indexes



Source: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.

Note: Gray areas indicate periods of recession as defined by the National Bureau of Economic Research.

- **Industrial production fell in April.** Production at U.S. utilities, mines, and factories fell by 0.2 percent last month. That decline reflected a 2.3 percent drop in production at utilities, following a 3.6 percent rise in March. But factory production continued to stagnate, failing to grow in April, after declining by 0.3 percent in March. Factory operating rates averaged 77.9 percent of capacity last month (see top chart), the lowest level since the end of last year. Capacity utilization in manufacturing remains below the postwar average of just under 82 percent. Two key regional indicators for manufacturing in the northeast suggest that the weakness in factory production may have extended into May.

- **Consumer price inflation was driven by energy price increases last month.** The consumer price index (CPI) rose by 0.5 percent in April, to 3.5 percent above its level a year ago (see bottom chart). That increase largely reflected a 4.5 percent gain in energy prices, with gasoline prices rising by 6.4 percent. However, the core CPI (which excludes the effects of food and energy prices) was unchanged in April, and was only 2.2 percent above its level a year earlier.

- **Real weekly take-home pay edged up in April, but real hourly earnings continued to slide.** Real (inflation-adjusted) average weekly earnings of production and other nonsupervisory workers in private nonfarm businesses rose by 0.2 percent in April, following declines of 0.3 percent in each of the preceding two months. But that gain reflects an increase in the hours worked in April. Real average hourly earnings of those workers fell by 0.4 percent last month, to 1 percent below the level of real average hourly earnings a year earlier.

The Economy at a Glance	Apr	Mar	Feb	Jan	2005 Qtr 1	2004 Qtr 4	2004 Qtr 3	2004 Qtr 2	2004	2003
<b>Economic Activity</b>										
Real GDP (% growth)*	—	—	—	—	3.1	3.8	4.0	3.3	4.4	3.0
Industrial Production (% growth)	-2.4	1.2	6.2	-1.2	3.6	4.5	2.7	4.3	4.2	0
Capacity Utilization (level, %)	79.2	79.4	79.4	79.1	79.3	78.8	78.2	77.9	78.1	75.5
Civilian Unemployment Rate (level, %)	5.2	5.2	5.4	5.2	5.3	5.4	5.4	5.6	5.5	6.0
Housing Starts (thousands)	2038	1836	2228	2188	2084	1973	1974	1923	1950	1854
Real Disposable Personal Income (% growth)*	n.a.	0.1	1.5	4.7 <sup>#</sup>	4.3 <sup>#</sup>	3.5 <sup>#</sup>	2.9	2.8	3.2 <sup>#</sup>	2.3
Retail Sales (% growth)	18.0	4.3	8.1	0.7	6.0	10.2	6.4	6.6	7.3	4.3
Personal Saving Rate (level, %)*	n.a.	0.4	0.5	0.8	0.6	0.5 <sup>#</sup>	0.7	1.3	0.9 <sup>#</sup>	1.4
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)	6.2	7.4	4.9	1.2	2.4	3.6	1.6	4.4	2.7	2.3
Core CPI-U Inflation (% growth)	0	4.9	3.7	2.4	2.6	2.3	1.7	2.6	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	2.4	3.2	4.1	3.6	3.9	4.0
Output per Hour (% growth)	—	—	—	—	2.6	2.1	1.3	3.9	4.1	4.4
<b>Financial Markets</b>										
T-bill Rate, 3-month (level, %)	2.78	2.74	2.54	2.33	2.54	2.01	1.49	1.08	1.37	1.01
T-note Rate, 10-years (level, %)	4.34	4.50	4.17	4.22	4.30	4.17	4.30	4.60	4.27	4.01
Federal Funds Rate (level, %)	2.79	2.63	2.50	2.28	2.47	1.95	1.43	1.01	1.35	1.13
Dow Jones Industrial Avg (index level)	10283	10682	10724	10540	10648	10362	10130	10289	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

\* Subject to revision over the next week.

# Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

### Upcoming Economic Releases:

- **New Residential Sales: April 2005** [Release: Wednesday, May 25]
- **Advance Report on Durable Goods Manufacturers' Shipments, Inventories and Orders: April 2005** [Release: Wednesday, May 25]
- **Gross Domestic Product (Preliminary) and Corporate Profits: First Quarter 2005** [Release: Thursday, May 26]
- **Personal Income and Outlays: April 2005** [Release: Friday, May 27]